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C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 000120

SIPDIS

EUR/CE FOR SCHROEDER, NEA/IR FOR GROEN, EEB FOR COULTER

E.O. 12958: DECL: 01/31/2019

TAGS: [PREL](#) [ECON](#) [EFIN](#) [ENRG](#) [ETRD](#) [GM](#) [IR](#)

SUBJECT: IRAN: HERMES PROGRAM CUTS MAKE WAVES

Classified By: EMIN Robert Pollard, for reasons 1.4 (b) and (d)

**¶1.** (C) Summary: Media reports claiming a sudden, dramatic decision to reduce Hermes export guarantees for trade with Iran are overstated, German government officials tell us. Instead, the program has been wound down, with a 94% reduction since 2004, as part of Germany's ongoing efforts to increase pressure on Iran. Officials confirm export guarantees will remain available for small and exceptional cases, but emphasized that export insurance is no longer available for exports to Iran's refinery or liquefied natural gas (LNG) sectors. German business, now including the banking sector, is increasingly sensitized to the risk of trading with Iran, we heard. Leading German business associations reacted negatively to the news, calling on German companies to intensify business with Iran if U.S.-Iranian dialogue begins. While the German government continues to take steps to cut trade with Iran, the 2008 increase in German exports to Iran indicates that German companies are willing to self-finance the risk of trading with Iran if federal support is unavailable. End Summary.

**¶2.** (C) The leading German business daily newspaper, Handelsblatt, reported January 26 that Chancellor Merkel ordered Economics Minister Glos to stop Hermes cover for exports to Iran, except in low-value cases. The article claimed the Chancellor was responding to growing U.S. and Israeli criticism of the increase of German exports to Iran in 2008. During Gaza-related negotiations early this year, Israel reportedly told Germany that it would take unilateral measures against Iran if Teheran's nuclear program continued. (Comment: CDU foreign policy experts tell us that their greatest fear for the CDU's September 2009 electoral chances would be Israeli or U.S. military action against Iran before the national elections, as it would benefit both the rival Social Democratic Party and The Left party. End Comment).

**¶3.** (C) Contacts at both the Economics Ministry and MFA downplayed Handelsblatt's contention that there had been a dramatic move to cut Hermes. Instead, they characterized it as part of the German government's ongoing effort to wind down government support for trade with and increase pressure on Iran. Ministry of Economics officers Martin Lutz (Iran trade sanctions) and Thomas Solbach (export credit insurance) told EconOff the current state of Hermes for Iran projects is "extremely restrictive" and only for low-value export projects. Solbach provided data showing that, between 2004 and 2008, the amount of new Hermes guarantees written for Iran declined by 94%, from 2.13 billion to 133 million Euros. Overall Hermes exposure in Iran declined in the first half of 2008 by 7.5%, compared to the same period in 2007, from 5.3 to 4.9 billion euros. While Solbach said there was no specific target for 2009, he did note that new applications have declined and he expects this trend to continue. He declined to identify any sectors specifically available or targeted for these low-value projects, but stressed that Hermes cover for refinery and liquefied natural gas

technology exports to Iran was strictly prohibited.

15. (C) Lutz attributed the *Handelsblatt* article's basis to the January 16 meeting of Economics Ministry Deputy Director General Karl Wendling with business leaders, during which Wendling "discouraged" trade with Iran and asked business for "vigilance and restraint" in their dealings with Iran. According to Lutz, Wendling told the group it would be &unthinkable<sup>8</sup> to grant export guarantees in sectors such as LNG and refining.

16. (C) Economic Ministry officials added that German business awareness of the risks of trading with Iran appears to be increasing, as more companies and banks seek government approval of their Iran-related activity. Lutz noted that BAFA (the German Export Control Agency) is "flooded" with applications for so-called &Nullbescheids,<sup>8</sup> a certification that no export license is required. According to Lutz, a significant new trend has emerged as German banks are now seeking Nullbescheids on Iranian transactions, to assure themselves that the underlying exports are permitted.

17. (C) In the prior Hermes environment, when large projects were considered, companies applying for cover faced a German interagency committee approval process. The committee has representatives from the Ministries of Economics, Finance, Foreign Affairs, and Economic Cooperation and Development. This group also discusses Hermes policy. The group makes decisions on a consensus basis; any ministry may veto a project. In this respect, the process is similar to BAFA's interagency review process for sensitive exports.

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18. (C) German business reacted negatively to the *Handelsblatt* story, reviving their usual accusation that other countries, including the U.S., are increasing business relations with Iran as German companies pull out of the market. Helene Rang, President of the Near and Middle East Trade Association (NUMOV), claimed the Hermes cuts constituted a double standard.

Rang added that that German business should &use the occasion of direct talks taking place between the United States and Iran<sup>8</sup> to intensify its own trade with Iran. According to *Handelsblatt*, NUMOV will dispatch its honorary chairman, former Chancellor Gerhard Schroeder, to Iran in mid-February to promote German-Iranian trade (Septel). The German Exporters Association (BGA) also issued a statement critical of the announcement, saying that this &embargo through the back door<sup>8</sup> made business planning impossible; while business accepts the primacy of politics, it demands clarity about what trade is and is not allowed.

19. (C) Comment: Under German and EU law, the German government has few unilateral tools available to it to reduce legal exports to Iran. Using moral suasion on business and stanching discretionary programs like Hermes cover are, however, permitted. While there is no guarantee that reducing Hermes cover for exports to Iran will actually decrease overall exports, this tougher approach by the German government is a step in the right direction and a sign that Germany continues to share the goal of keeping Iran from obtaining nuclear weapons. Wendling's unusually tough statement at the January 16 event marks a welcome change in the Economic Ministry's tone. Germany's increase in trade with Iran in 2008, however, shows German companies can self-finance the risk of trading with Iran through other means such as requiring advance cash payments or charging Iranian customers higher prices. Additionally, German exporters can still process transactions through the few German or international banks still willing to do business with Iran. Post will continue to urge the German government to apply pressure and produce meaningful results, no small feats in a German election year where the economy sits center stage.

Koenig